48 Real Estate Exam Vocabulary Words You Need to Know

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The real estate exam will test you on vocabulary words you learned about during your pre-licensing education. There is a lot of them!

So, we compiled a list of the most common real estate exam vocabulary words that you should expect to see on the big test.

These are foundational to learn for the exam *and* your career. Although, they won't cover EVERYTHING you will see on the exam, studying this list of vocab words will give you basis that will help your real estate knowledge grow.

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What is Real Property?

Real property is all things attached to the surface of the land, the ground below, the air above, and all the legal rights to them.

It is used to refer to things that are typically immovable.

This includes the building itself and other appurtenances, such as landscaping, walkways, and other structures.

What is Personal Property?

Personal property is a real estate vocabulary word that refers to any tangible and moveable objects such as gadgets, furniture, vehicles, machinery, and so on.

This simply means that personal property would be any property that does not qualify as real property.

Another difference between real and personal property is the mode of transfer. A deed is used to transfer real property from an owner to a buyer, while a bill of sale is used to transfer personal property.

What is a Fixture?

A fixture is any item that was once personal property but has become real property by way of permanent attachment to real property.

Examples of fixtures include kitchen cabinets, ceiling fans, chandeliers, and window treatments.

What is the Bundle of Rights?

The bundle of rights is a term that describes a collection set of legal rights that is generally vested in an owner of real property upon purchase and receipt of a title deed.

The bundle of rights consists of five rights. These rights may be held by the titleholder alone or may be shared

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with other parties.

The Right of Use

The right of use allows a titleholder to use their property in any way that suits them as long as it is not illegal.

This could include things like hosting guests, renting out the property, or even making changes to the property.

Keep in mind that this right can be somewhat restricted in practice by HOA regulations, and local, state, and federal laws where applicable.

The Right of Possession

The right of possession gives a titleholder the freedom and power to choose who may or may not enter their property.

This right may be limited in the instances of search warrants, easements, or rental properties.

The Right of Transfer

The right of transfer guarantees the right of a titleholder to dispose of a property.

This means they can transfer the ownership of their property to another party by selling it, willing it, or gifting it. Exclusion to this right exists in cases of mortgages and liens.

The Right of Encumberment

The right of encumberment means that the title owner has the right to take out a loan on the home. By building and using the home's equity, they can finance development projects to raise the home's value.

The Right of Enjoyment

What is Commingling?

In real estate, commingling occurs when an agent mixes their client's funds with their own funds.

Usually, these funds may be designated for different purposes and in some instances, the funds may be from different sources.

An example of commingling is when the homebuyer provides the money to buy a home but the real estate agent deposits the money in their personal bank account. The money becomes mixed with the agent's personal funds.

What is Steering?

Steering, in real estate, is when a real estate agent discriminatorily influences the choice of a buyer by only

showing them properties in certain communities.

This discrimination is often based on factors like the buyer's gender, race, sexual orientation, religion, or other protected factors.

An example of steering would be showing a person of a race only properties that are located in communities or neighborhoods where their race is prominent while avoiding areas dominated by another race.

What is Escrow?

Escrow, in real estate, is a legal arrangement between the buyer and the seller to have a neutral third party hold the funds temporarily until specific conditions have been met, usually a transfer of title.

Once the set condition is met, the funds are transferred to the seller.

Escrow typically assures the seller of the seller's good faith and protects the buyer from a fraudulent transaction.

Escrow companies typically serve as a neutral third party and they hold onto the deed and other related documents.

Remember, escrow is a neutral third party that protects the integrity of the transaction.

What is an Acreage?

Acreage is a real estate term that refers to a large expanse of land that is yet to be divided into small lots for residential purposes.

An acreage is made up of 43,560 square feet. A section is made up of 640 acres and a survey township is made up of 36 sections.

What is Eminent Domain?

Eminent domain is the power that the local, state, and federal government has to acquire private property from a person for public use. This is usually done in exchange for fair compensation from the government.

For example, if the government wants to expand a highway, they may need to purchase and demolish buildings close to the highway to facilitate the widening.

What is an Easement?

An easement refers to the legal right of a person to access and use another person's real property for a specific purpose.

For example, utility companies hold easements that permit them to access power cables on a property.

Here are a few terms that you should know to help you understand how easements work:

Servient Tenement

The servient tenement in an easement arrangement refers to the property that bears the burden of an easement.

Dominant Tenement

A dominant tenement, on the other hand, is the property that benefits from the easement on another property.

Ingress and Egress

Ingress, in easements, refers to the right of a person to enter a property while egress is the right to leave the property.

In easements, these rights come to play when a property is landlocked. It invokes an easement by necessity so that a person can access their property even if it means crossing another person's property.

What is a Beneficiary?

When you obtain a mortgage, the party benefiting from your payments is the beneficiary. In most cases, this is the bank or lender that you're borrowing money from to buy the house. This is because you promise to make payments back to the lender, and they, in turn, benefit from the payments, including the interest on the loan.

What is Equity?

Equity is the difference between what you owe on a property and the house's current market value. Generally speaking, the more time that has passed since you bought a property, the more equity you'll have in the house. Then, when you go to sell the house, you'll be able to cash out on this value and benefit from your investment.

What is an FHA Loan?

An FHA loan is a type of loan insurance that the Federal Housing Administration backs. This program was created in 1934 by the Housing and Urban Development department to make it easier for people to buy homes, as it requires a smaller down payment than conventional loans.

Today, buyers securing an FHA loan only need a 580 credit score and 3.5% of the home's cost as a down payment. This is why FHA loans are ideal for first-time homebuyers, as they require less up-front cash and are better for people establishing their credit.

However, all FHA loans require mortgage insurance to protect your lender against losses. So make sure to consider this added cost when considering an FHA loan!

What is a Lien?

A lien is a legal right to possess another person's property until their debt has been paid. Usually established by a creditor or legal judgment, a lien is meant to satisfy your obligation to pay off a debt or loan by using the property as collateral.

There are many different types of liens, but general and specific are some of the more common types in real estate. In a general lien, all your property - including your house and additional personal property - can be seized to pay off a debt.

However, a specific lien is used only to seize one specific property applicable to the debt - like a house. This does not cover all the personal property or items a debtor may own.

What is a Mechanic's Lien?

Created by Thomas Jefferson in the early days of our nation, a mechanic's lien is a legal document that ensures a supplier's or worker's right to enact a lien to ensure payment.

A mechanic's lien can be used by subcontractors or builders who have done work on a property and are seeking the appropriate payment. A property with a mechanic's lien cannot be sold and must be settled before putting a house on the market.

What is an Acceleration Clause?

An acceleration clause is a term in a mortgage agreement that permits the lender to accelerate repayments, usually only invoked when the borrower misses payments or is in violation of the loan agreement.

Otherwise known as a mortgage acceleration, these standard protections are implemented to prevent the mortgage lender from defaulting on a loan.

When enacted, the borrower is responsible for paying the amount owed, including any accumulated interest since your last payment. If not paid by a set date, your lender can begin foreclosure.

What Does Underwriting Mean?

When you obtain a mortgage, your loan will go through a phase called underwriting. Once under contract on a property, a person called an underwriter will go through the process of assessing the risk of lending the borrower the loan.

During this process, the underwriter will not only evaluate the borrower applying for the loan — but will also assess the condition of the property being purchased.

The bank is looking to ensure that the borrower's and property's qualifications are up to standards and will consider the risk involved with loaning money for the purchase.

The borrower must submit documents verifying their financial statuses, like bank statements, proof of employment, and tax returns. Additionally, the underwriter will use the appraisal to evaluate the property to ensure it is in appropriate condition and worth the amount of money you're purchasing it for.

What Does Hypothecation Mean?

A hypothecation agreement is when a borrower agrees to offer an asset as collateral in exchange for a loan. Used frequently in mortgages, while a borrower technically owns the house, a lender can seize a home as collateral if debts are not paid or the terms of the loan agreement are not met.

While the bank owns the property, it cannot claim any income or cash flow generated from the home unless the borrower defaults on their loan.

What is the Debt-to-Income Ratio?

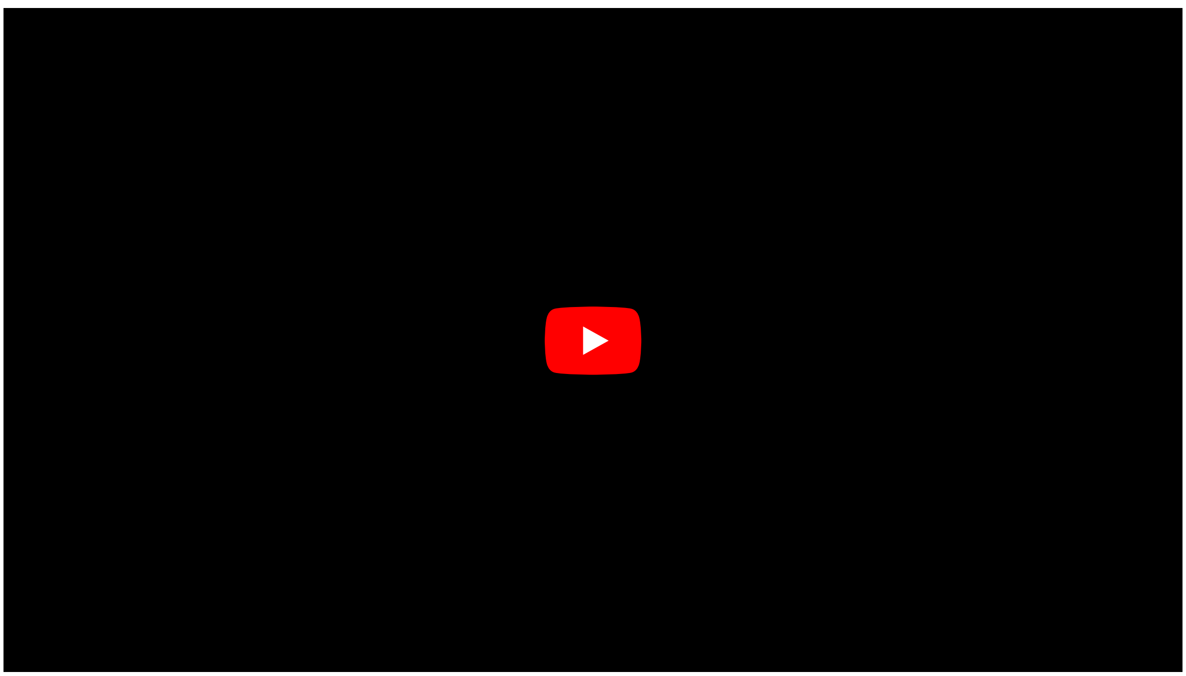
Your debt-to-income ratio compares how much you earn every month versus how much you owe. This considers your wages pre-tax, then calculates expenses like rent, mortgage, car payments, student loans, or other types of debt.

When purchasing a home, your lender will look at your debt-to-income ratio when determining how much you can afford.

What is a Fixed-Rate Loan?

A fixed-rate loan is a mortgage loan where the interest rate stays the same throughout the loan's lifetime.

This can be beneficial because you'll always know how much you owe, as monthly payments won't change over the length of the loan. In addition, if interest rates are currently low, obtaining a fixed-rate loan can be an intelligent financial decision.



What is an Appraisal?

An appraisal is a third-party professional opinion on the value of the property. This is generally done to ensure that the value of the property is in line with how much it's being purchased for and guarantees the bank that it's being purchased for a fair price.

The appraisal helps the lender protect itself against overfunding and ensures that the price is reasonable for the seller.

Usually, the buyer will pay for the appraisal once under contract on the house. However, it's generally not required for all cash offers unless the buyer specifically requests it.

What are Comparables?

A comparable, often referred to as a comp, is a valuation of a property according to a study of similar properties in the area that you're looking to buy or sell in. A comp is used to determine the home's value based on surrounding properties that have recently sold and can indicate the appropriate value of your property.

For buyers, comps are helpful to ensure you're putting in a competitive offer on the house. For sellers, they provide clear pricing parameters for how much your home is worth.

Comps consider things like the size of the property, the year it was built, and the property's features. Real estate agents use comparables to help sellers list their property at an appropriate price and help buyers make an appropriate offer.

What is a Drive-By Appraisal?

A drive-by appraisal is sometimes used in real estate to determine the home's value. While not as in-depth as a full appraisal, a drive-by appraisal mainly evaluates the house's exterior.

An appraiser will visit the house, make notes and take photos of the home's exterior, and make a valuation call based on its street value.

Depending on the current market and the property you're purchasing, your lender may feel comfortable with just ordering a drive-by appraisal versus a full appraisal.

What is an Appraisal Report?

An appraisal report is the written overview of the appraiser's findings. This generally includes detailed results of similar properties in the area that have sold, a valuation of the property, and how the neighborhood will impact the home's future value.

This overview will outline precisely how the appraiser came to their conclusions and cite the corresponding evidence associated with the report, like photos and data.

What is a Trade Fixture?

Trade fixtures outline personal property items that a tenant would install or use to operate their business in commercial real estate. For example, restaurant booths inside a restaurant would fall under trade fixtures that the tenant installed to conduct their business.

Unlike a regular fixture, these fixtures do not become a landlord's property when the lease expires. A regular fixture is an item that becomes the landlord's property after the tenant's lease expires.

What Does Ad Valorem Mean?

The Latin phrase ad valorem means "based on value." In terms of real estate, an ad valorem tax is a tax based on a property's value — often in the form of a personal property tax.

These taxes are generally instituted by local governments and are assessed annually by the jurisdiction. These are usually the primary source of income for municipal governments and are essential to consider when purchasing a home.

What is a Sales Comparison Approach?

A sales comparison approach is a standard real estate appraisal practice that compares one property to other recently sold properties with similar characteristics.

Many in the industry use this method to determine how individual features on the house make up the home's overall value. The sales comparison approach considers factors like the size of the house, location, other sold listings, price per square foot, condition, and age of the house.

What is an Income Approach?

In the income approach, an appraiser determines the property's value based on the income the property generates.

This is frequently used in multi-family housing or investment properties and considers factors like occupancy rates, operating efficiency, and condition of the property. This is also called income capitalization.

What Does Depreciation Mean?

Depreciation is the decrease of the home's value. A few factors are considered when calculating depreciation — physical depreciation, functional obsolescence, and economic obsolescence.

Physical depreciation refers to the decline of the property's value over time due to time, elements, and usage. For example, natural weathering and decay would be considered physical depreciation.

Functional obsolescence is when deficiencies or undesirable aspects of the building decrease its value, such as historic architecture or outdated facilities.

Lastly, economic obsolescence is a decrease in property value due to a change in surrounding or local economics and often has nothing to do with the property itself.

What is Zoning?

Zoning is the division of land by the local government. These laws are local regulations that dictate how the land can be used.

These decisions are based on a master plan for the district and consider a variety of factors like economic development, traffic concerns, noise or light levels, and protecting local resources.

There are multiple zoning classifications, but some of the most common include commercial, residential, agricultural, hospitality, or industrial. Zoning laws can impact property value and what type of building or structure can be built on a property.

What is a Bilateral Contract?

In real estate, a bilateral contract is a contract that involves two people, each with a contractual promise they must perform. As a result, each party is obligated to complete their tasks according to the contract.

For example, a seller will give a deed to the property in exchange for money from the buyer. Both parties are held responsible for their side of the contract.

What is a Unilateral Contract

In a unilateral contract, only one person or party is obligated to perform their contractual duty. For example, if you lose your wallet and offer a reward for finding the wallet, they'll only get the reward if they find and return the wallet. Only one person is contractually required to perform a duty.

What does Caveat Emptor Mean?

In Latin, the phrase caveat emptor translates literally to "buyer beware." For real estate, this means that when a buyer is purchasing a house, it is up to them to be familiar with the condition and inadequacies of the house.

While the seller will provide their own disclosures about the condition, it is up to the buyer to also get their own data to inform their decision about the property. Usually, this means that a buyer will hire an inspector to provide a first-party report about the status of the house where they can have a full picture of the property, separate from that provided by the seller.

From there, the buyer will be able to make their own decision with the knowledge they have.

What does Dual Agency Mean?

A dual agency agreement is when a real estate agent represents two people or parties on the same deal. Usually, this will mean an agent is helping both the buyer and seller, and they'll receive the full commission.

While this is not always legal, it is in California. When you represent both the buyer and the seller on the same deal, you'll have two principles. That means you earn the whole commission. This is different than a single

agency, where the agent will only represent one party.

What does Escheat Mean?

If a property owner dies and there are no identified heirs or successors, a property can be reverted to the state upon an owner's death.

The state will be required to take ownership of the property, since the property can't be sitting abandoned or in limbo without any owners.

What does Intestate Mean?

If a person dies without a will, their estate is then categorized as intestate. Similar to escheat, this could mean that the individual's property is turned over to the state to manage.

While these laws vary from state to state, the lack of a will can turn a person's estate over to the government.

What is a Holdover Tenant?

A holdover tenant is a lessee who stays in the property longer than they are supposed to. Once their lease is up, they're supposed to be vacated from the property.

But a holdover tenant stays in the property past their intended time. Even if the tenant is paying rent but they're past their lease, they can be sued for being a holdover tenant.

What is a Real Estate Transfer Disclosure Statement (TDS)?

A real estate transfer disclosure statement, also called a TDS, is a document containing what items are included in the purchase of a home.

This is the seller's opportunity to put in writing what is included in the purchase, including all the deficiencies listed and a checklist of items that come with the house like a microwave, furniture, or any other belongings. This is often the biggest disclosure a real estate agent will utilize when working with a buyer.

What is a Voluntary Lien?

A voluntary lien is placed on property with the consent of the individual receiving the lien. For example, a mortgage is a voluntary lien because the buyer consents to the lien through the bank. Or, if you wanted to get a secondary loan or a car loan, these are all voluntary liens because the buyer asked for the responsibility that comes with the loan.

This differs from an involuntary lien, which someone else imposes, like a tax lien or a mechanics lien.

What does TRID Mean?

TRID stands for TILA (Truth in Lending Act) RESPA (Real Estate Settlement Procedures Act) Integrated Disclosures. This disclosure was specifically developed so that the lender has to be transparent in the purchase and provide two things.

The first is a loan estimate that outlines fees and costs associated with a mortgage. Additionally, they must provide a closing disclosure listing exactly how they will charge and where each fee is allocated in the closing process.

The Truth in Lending Act was developed in 1968 to protect the consumer and provide transparency throughout the lending process. Shortly after, the Real Estate Settlement Procedures Act was developed to prevent unnecessary settlement costs and promote transparency into each fee's purpose.

TRID wasn't put in place until 2015, but now ensures all parties are providing the appropriate information and disclosures for both buying and selling.

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TL;DR: These real estate vocabulary words will help you prepare for the exam. Make sure you know these before you take the test because they are fundamental to getting a passing score.

By | Feb 14, 2023

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